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November 29, 2013

VIA HAND DELIVERY

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
Boise, Idaho 83702

Re: Case No. IPC-E-13-22
Update to Wind Integration Rates and Charges – Idaho Power Company's
Application and Testimony

Dear Ms. Jewell:

Enclosed for filing in the above matter are an original and seven (7) copies of Idaho Power Company's Application.

In addition, enclosed are an original and eight (8) copies each of the Direct Testimony of Philip B. DeVol and Michael J. Youngblood filed in support of the Application. One copy of each witnesses' testimony has been designated as the "Reporter's Copy." In addition, a disk containing a Word version of the aforementioned testimonies is enclosed for the Reporter.

Very truly yours,



Donovan E. Walker

DEW:csb
Enclosures

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF IDAHO POWER COMPANY TO)	CASE NO. IPC-E-13-22
UPDATE ITS WIND INTEGRATION RATES)	
AND CHARGES.)	APPLICATION
)	

In accordance with RP 052, Idaho Power Company ("Idaho Power" or "Company") hereby respectfully requests the Idaho Public Utilities Commission ("Commission") authorize Idaho Power to update its wind integration rates and charges consistent with its 2013 Wind Integration Study Report ("2013 Study").

In support of this Application, Idaho Power represents as follows:

I. INTRODUCTION

1. Due to the variable and intermittent nature of wind generation, Idaho Power must modify its system operations to successfully integrate wind projects without impacting system reliability. Idaho Power, or any electrical system operator, must provide operating reserves from resources that are capable of increasing or decreasing dispatchable generation on short notice to offset changes in non-dispatchable wind generation. The effect of having to hold operating reserves on dispatchable resources

is that the use of those resources is restricted and they cannot be economically dispatched to their fullest capability. This results in higher power supply costs that are subsequently passed on to customers.

2. Idaho Power, similar to much of the Pacific Northwest, has experienced rapid growth in wind generation over past several years. Idaho Power currently has 577 megawatts ("MW") of wind generation capacity from Public Utility Regulatory Policies Act of 1978 ("PURPA") projects and an additional 101 MW of wind generation capacity from the Elkhorn Valley Wind Farm, for a total of 678 MW of wind generation capacity currently operating on its system. In addition, 505 MW of this wind generation capacity has been added to Idaho Power's system during 2010, 2011, and 2012. This rapid growth has led to the recognition that Idaho Power's finite capability for integrating wind generation is nearing its limit. Even at the current level of wind generation capacity penetration, dispatchable thermal and hydro generators are not always capable of providing the balancing reserves necessary to integrate wind generation. This situation is expected to worsen as wind penetration levels increase, particularly during periods of low customer demand.

3. Idaho Power considers the cost of integrating wind generation in its integrated resource planning when evaluating the costs of utility and third-party generation resources. The costs associated with wind integration are specific and unique for each individual electrical system based on the amount of wind being integrated and the other types of resources that are used to provide the necessary operating reserves. In general terms, the cost of integrating wind generation increases as the amount of nameplate wind generation on the electrical system increases. Failure to calculate and properly allocate wind integration costs to wind generators when calculating avoided cost rates impermissibly pushes those costs onto customers,

making them no longer indifferent to whether the generation was provided by a PURPA Qualifying Facility ("QF") or otherwise generated or acquired by the Company.

II. PRIOR PROCEEDINGS

4. Idaho Power completed its initial wind integration study and published the study report and a subsequent addendum in 2007 ("2007 Study"). The results of the study indicated that at approximately 500 MW of nameplate wind generation, there was an associated integration cost of \$7.92/megawatt-hour ("MWh"). The other Idaho investor-owned utilities, Avista Corporation and Rocky Mountain Power, completed wind integration studies at approximately the same time and each utility filed a petition with the Commission asking to reduce avoided cost rates for wind projects based on the results. Although the Commission did not combine the three utility petitions into a single case, all three were processed simultaneously (Commission Case Nos. IPC-E-07-03, AVU-E-07-02, and PAC-E-07-07).

5. In Case No. IPC-E-07-03, the Commission issued Order No. 30488 in February 2008 approving a joint settlement stipulation and establishing a tiered integration cost structure that increased as nameplate wind generation increased. The stipulation also established a cap of \$6.50/MWh with the understanding that each of the utilities would update their integration studies in the future as more wind generation was added. Order No. 30488 states:

Idaho Power's published avoided-cost rates for Wind QFs will be adjusted to recognize an assumed cost of integrating the energy generated by Wind QFs as a part of the Company's generating resource portfolio. The rate adjustment will be applied in three tiers, increasing as the total amount of wind integrated onto Idaho Power's system grows. The integration charge for each Wind QF project will be calculated at the time a Wind QF project achieves its Operation Date as that term is defined in the Firm Energy Sales Agreement (FESA) between the Company and the

wind QF. The integration charge will be calculated as a percentage (7%, 8% or 9%) of the current 20-year, levelized, avoided-cost rate, subject to a cap of \$6.50/MWh. The integration charge as calculated on the Operation Date will remain fixed throughout the term of the contract and will be applied as a decrement to the applicable published rate according to the table below:

	<u>Amount of Wind Online</u>	<u>Integration Charge</u>
Tier 1	0 to 300 MW	7% (\$6.50/MWh)
Tier 2	301 MW to 500 MW	8% (\$6.50/MWh)
Tier 3	501 MW and above	9% (\$6.50/MWh)

Order No. 30488, quoting Settlement Stipulation which was approved by Commission.

III. 2013 WIND INTEGRATION STUDY REPORT

6. In support of its Application requesting the Commission update Idaho Power's wind integration charge, Idaho Power presents its current Wind Integration Study Report ("2013 Study") as Exhibit No. 1 to the testimony of Philip DeVol ("DeVol Testimony"), filed contemporaneously with this Application. The 2013 Study was also filed with Idaho Power's 2011 Integrated Resource Plan ("IRP") Update on February 14, 2013, in Case No. IPC-E-11-11.

7. As described in Mr. DeVol's Testimony, the 2013 Study analyzed three different levels of wind penetration: 800 MW; 1,000 MW; and 1,200 MW. The 2013 Study, which was completed in February 2013, was conducted using inputs from the 2011 IRP. Results of the analysis showed integration costs of \$8.06/MWh, \$13.06/MWh, and \$19.01/MWh, respectively, if all wind integration costs were spread equally across all wind generation. As described in Mr. DeVol's Testimony, once the 2013 IRP was completed and filed, the 2013 Study was updated with 2013 IRP inputs for the load forecast, Mid-C electric market prices, natural gas price forecast, and the coal price forecast ("Updated 2013 Study"). The results of the Updated 2013 Study are that integration costs went down to \$6.83/MWh, \$10.22/MWh, and \$14.22/MWh,

respectively, if all wind integration costs were spread equally across all wind generation. Based upon the very conservative assumption that all of the current 678 MW of wind generation capacity were being assessed the cap of \$6.50/MWh (which they are not) and that they would continue to be assessed just \$6.50/MWh in the future, the incremental costs of wind integration at the three different levels for new wind generators would be \$8.67/MWh at 800 MW, \$24.00/MWh at 1,000 MW, and \$34.70/MWh at 1,200 MW. The Updated 2013 Study results are summarized in the table below from Mr. DeVol's Testimony:

UPDATED 2013 STUDY (using 2013 IRP inputs)

Penetration Level	800 MW	1,000 MW	1,200 MW
Allocated Equally to all Wind (/MWh)	\$6.83	\$10.22	\$14.22
Incremental Cost Allocation (/MWh)	\$8.67	\$24.00	\$34.70

IV. REQUEST TO MODIFY THE WIND INTEGRATION CHARGE

8. The testimony of Michael J. Youngblood, filed contemporaneously with this Application, sets forth the Company's proposals regarding the regulatory treatment to assess and collect the wind integration charges quantified in Mr. DeVol's Testimony. The Company discusses three separate methods from which the Commission could choose to implement to account for wind integration costs in avoided cost rates. Those methods are identified as Method 1: Maintaining Current Allocation; Method 2: Current Allocation with Integration Tariff; and Method 3: Equitable Allocation of Costs. The Company proposes two overall changes, which have been incorporated into each of the methods discussed in Mr. Youngblood's testimony, to address the collection of wind integration costs. Change One: abandon the use of percentage of avoided cost rate allocation and instead allocate a fixed amount based upon penetration level; Change

Two: decouple the wind integration charge from the avoided cost rate contained in the power sales agreement and instead have wind integration costs assessed as a stand-alone tariff charge.

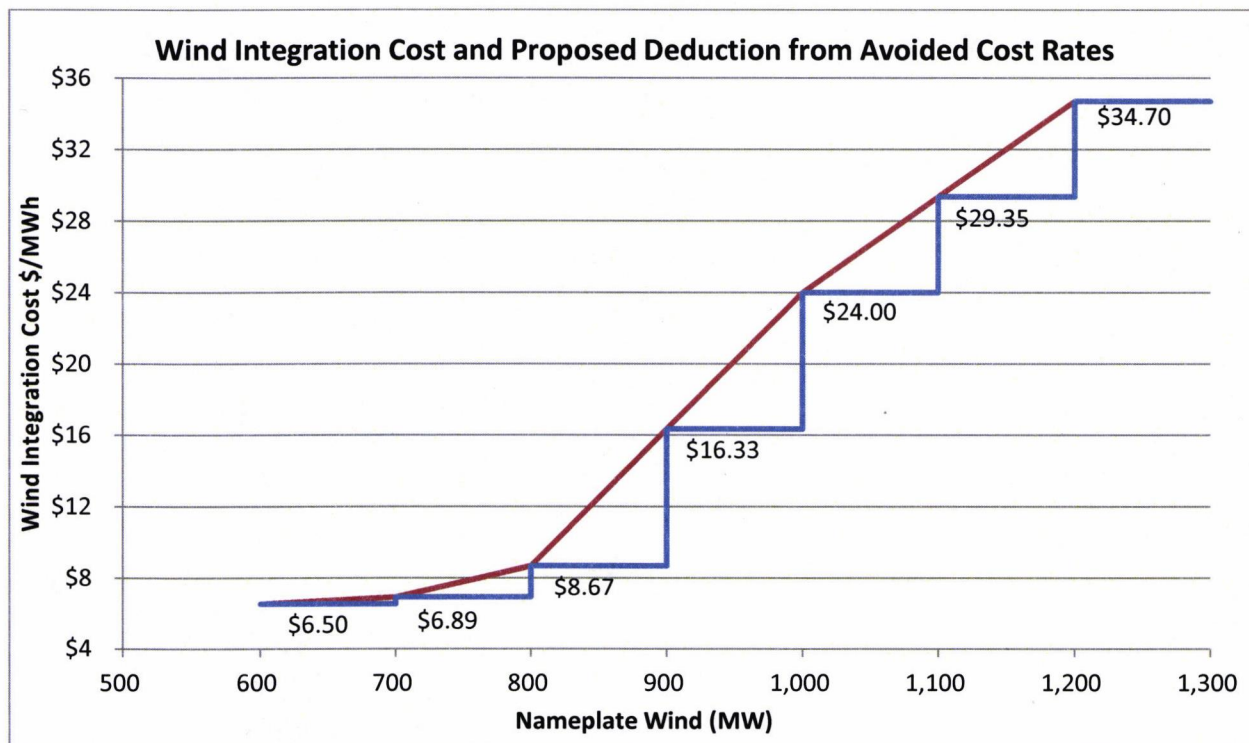
9. The costs associated with wind integration are currently under collected. They are assessed on a percentage basis of various avoided cost rates, which results in an inequitable contribution of the various wind QFs to the cost of integrating wind on the system. The use of the percentage of avoided cost rates really has no relation to actual costs of the additional reserves necessary to integrate variable and intermittent resources on the system. Additionally, setting the amount of wind integration charge for the entire duration of the power sales agreement assures further under collection of integration costs as those costs rise. This under collection from existing wind QFs results in an additional allocation to new wind QFs—the incremental difference—required to make the Company's customers whole, and remain indifferent to the addition of PURPA QF generation that substantially increases the wind integration cost for new wind projects.

10. The first method discussed from which the Commission could choose to implement integration charges—Proposed Method 1: Maintaining Current Allocation—does not change the existing structure but updates the rates and penetration levels. As discussed in Mr. Youngblood's testimony, if the Commission were to adopt this method, the three tiers and applicable charges are listed in the table below:

	<u>Amount of Wind Online</u>	<u>Integration Charge</u>
Tier 1	800 MW to 999 MW	\$8.67/MWh
Tier 2	1,000 MW to 1,199 MW	\$24.00/MWh
Tier 3	1,200 MW and above	\$34.70/MWh

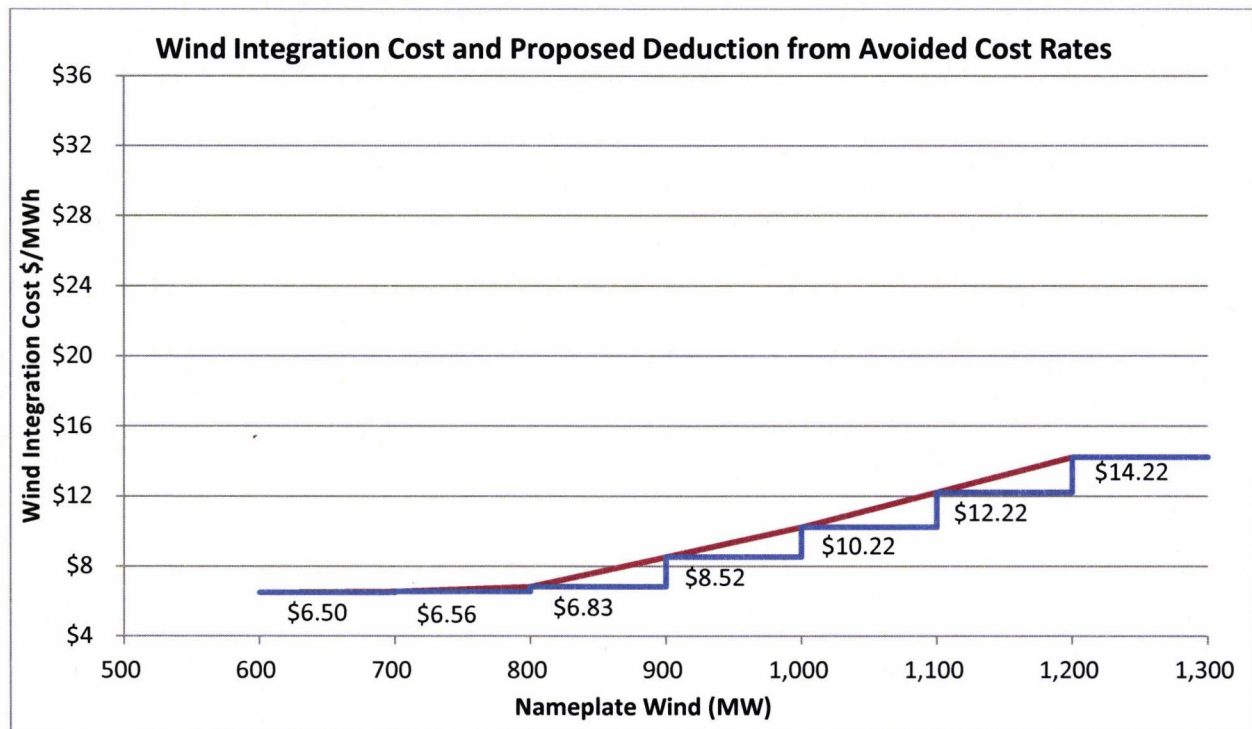
11. The second method discussed to account for integration costs—Proposed Method 2: Current Allocation with Integration Tariff—is a slight modification

to Method 1. For Method 2, rather than embedding the integration charges as part of the avoided cost prices in the contract rates, as is currently done, the Company would implement a new integration charge tariff which would identify the integration charges at the respective levels, separately from the power sales agreement. Exhibit No. 3 to Mr. Youngblood's testimony is a draft Tariff Schedule 87, Variable Generation Integration Charges, depicting the associated charges and penetration levels with Method 2. Under this method, the current deduction of \$6.50/MWh would be used until total nameplate wind generation reached 700 MW. Once 700 MW is reached, the wind integration charge would be increased to \$6.89/MWh. As shown in the graph below, subsequent increases would occur as each incremental 100 MW of wind generation is added.



12. The third method the Commission may consider to account for wind integration costs—Proposed Method 3: Equitable Allocation of Costs—is to spread the integration costs equitably across all PURPA wind generators. In this way, all wind

generators would be sharing equitably in the costs of integrating wind onto the Company's system. In addition, this would have the effect of reducing the charge per MWh and, in effect, not penalize new wind generation from coming on-line. Exhibit No. 4 to Mr. Youngblood's testimony is a draft Tariff Schedule 87, Variable Generation Integration Charges, depicting the associated charges and penetration levels with Method 3. Under this method all existing wind generation would be classified as "Type I" and all new wind generation would be classified as "Type II" under the draft tariff. Both would start at the current deduction of \$6.50/MWh, but Type I projects, who are already assessed a wind integration charge, would have a net charge of zero. In a similar manner to Method 2, the corresponding wind integration charge escalates with each 100 MW of penetration. Type II projects would pay the full integration charge, where Type 1 projects would pay the net difference between the full charge and the embedded cap of \$6.50/MWh. Type II charges are shown in the graph below. Type 1 charges would be \$6.50 less than that depicted on the graph below.



V. MODIFIED PROCEDURE

13. Idaho Power believes that a technical hearing is not necessary to consider the issues presented herein and respectfully requests that this Application be processed under Modified Procedure; i.e., by written submissions rather than by hearing. RP 201 *et seq.* Idaho Power has contemporaneously filed Direct Testimony of Philip DeVol and Michael J. Youngblood in support of this Application. Should the Commission determine that a technical hearing is required, the Company stands ready to present the testimony at hearing in support of this Application.

VI. COMMUNICATIONS AND SERVICE OF PLEADINGS

14. Communications and service of pleadings with reference to this Application should be sent to the following:

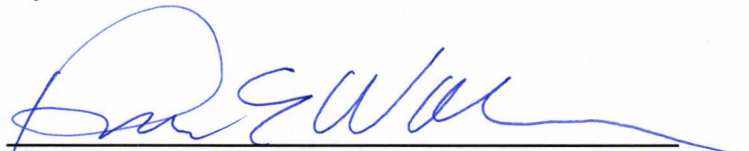
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VII. REQUEST FOR RELIEF

15. As described in greater detail above, Idaho Power respectfully requests that the Commission issue an order approving new rates and charges for wind integration as indicated by the Updated 2013 Study presented herewith.

DATED at Boise, Idaho, this 29th day of November 2013.



DONOVAN E. WALKER
Attorney for Idaho Power Company